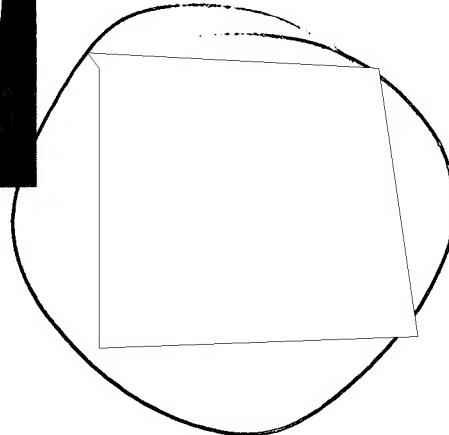


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The USSR: Problems, Policies, and Prospects
1967-1968

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THE USSR: PROBLEMS, POLICIES, AND PROSPECTS 1967-1968

General Perspective

1. History may ultimately record that the Soviet Union of Brezhnev, Kosygin, and company was not much different in its essentials from the Soviet Union of Nikita Khrushchev. There are, of course, notable differences in temperament and style between the present careful collective and the impulsive and impatient Mr. Khrushchev. But--in contrast with the impressive series of changes which occurred in the aftermath of the death of Stalin--the main lines of Soviet doctrine and policy have remained substantially unaltered in the roughly three years since the fall of Khrushchev.

2. It is true, nevertheless, that under a collective leadership there have been important changes in the way that national policy is formulated and in the way that it is carried out. If the present leaders have not been inclined to find new paths or to seek new purposes, they have nonetheless repudiated Khrushchev's excesses of style and extremes of policy. They have chosen to reign as a largely colorless committee and to govern primarily through compromise and consensus. They seem to recognize--as Khrushchev often did not--that many of the problems facing them are very complex and that their ability to act on these problems is limited. Another domestic undertaking comparable to Khrushchev's vast program to transform the Virgin Lands, for example, would seem to be beyond the courage and the capacities of the collective. Similarly, abroad, another move analogous to Khrushchev's brash (and disastrous) missile venture in the Western Hemisphere would seem to be completely out of character for the wary group of men now in the Kremlin.

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3. Thus the spirit of the collective is cautious. Perhaps as important, the machinery of the collective is cumbersome. It is certainly an oversimplification to say that, if Khrushchev controlled the bureaucracy, the bureaucracy controls his successors. There is, however, some truth to this notion. Brezhnev, for example, often seems to speak for the professional party apparatus; Khrushchev usually spoke to it. In any case, with a variety of views and interests represented within the Politburo, it cannot always be easy to arrive at decisions and may often then be difficult to execute them. Moreover, it is clear that there are strong disagreements among the top leaders over such diverse matters as the pace and character of economic reform, the proper allocation of the nation's economic resources, and what some regard as the declining momentum of Soviet foreign policy.

4. The shortcomings of committee rule, together with the political appetites of the leaders who operate within it, are matters of common knowledge and concern within the Soviet establishment. And certainly the inadequacies of accomplishment and the failures of policy serve to give the discontented and the ambitious both a pretext and a reason for seeking change. But no one can say--and perhaps least of all themselves--how many specific failures (such as their inability to foresee or forestall the Arab collapse in the June war) the present leaders can suffer, or how many chronic issues (such as their constant struggle over economic priorities) they can endure.

5. Nevertheless, if the present Soviet leadership, standing on the brink of a new year, is of a mind to congratulate itself, it could do so on several grounds. First, it has, after all, managed to survive for more than three years without major changes in its composition or in the way that it functions, and--whatever happens in the future--this in itself is no small accomplishment. Second, even if they should not claim the lion's share of credit for themselves, the top leaders have at least helped to put some momentum back into an economy which, under Khrushchev, was showing signs of foundering. Third, they have some reason for satisfaction in a number of lesser gains, including a measure of progress in the implementation of the limited economic reform program, and

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some apparent improvement in relations with the general public as a result of the increased availability of consumer goods during the 50th Anniversary year. In the international sphere, they can feel some pleasure about the way events are moving in Western Europe and about the trend of their relations with Turkey, Iran and India. They have preserved their foot-hold in the Middle East and probably think their chances of expanding it are good. They can also derive some comfort from the distress the United States is suffering from the war in Vietnam. Concerning the Communist movement, they can feel substantial relief at the way Peking has damaged its own position.

6. Despite accomplishments such as these, the Soviet leaders, looking back on the year just past, have little reason for jubilation. Indeed, they have reason devoutly to hope that next year will be better than last, for 1967 brought them woe as well as blessings.

Thus, at home, 1967 brought them:

- in the economy, the slighting of investment, the key to future growth;
- within the leadership, an apparent intensification of controversy over the question of resource allocations;
- and, in the area of popular and party morale, waning ideological fervor, unrelieved discontent among many writers and artists, and continuing restiveness among the young.

And thus, abroad, 1967 also brought the leaders:

- surprise and pain at the Arab military debacle in the six-day war in the Middle East;
- some reason for increasing concern over the possibility that the US would take actions which would enlarge the war in Vietnam, raising the question of more direct Soviet involvement;
- anxiety over the potential dangers of Mao's cultural revolution, frustration over the antics of the Cubans and the Rumanians, and dismay over their inability to restore discipline among the Communist parties of the world.

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7. What of the new year 1968? Will it bring a similar mixture of profit and loss, pleasure and pain? Probably so. Domestic prospects are not especially bright. The question of resource allocation, for example, will almost certainly remain at issue, and contention between the regime and some of its unhappy subjects is not likely to be dealt with in any effective and lasting way. Much the same can be said about the USSR's prospects abroad. The urge to compete with, to outdo, and indeed to undo the United States in most areas of the world and in most areas of international policy will no doubt remain one of the strongest impulses behind Soviet policy. At the same time, this urge is likely to some extent to be curbed by the Soviets' appreciation of the limitations of their own capacities and by their awareness that nuclear conflict between the two great powers would be mutually suicidal. Thus, the quandary the Soviets find themselves in vis-a-vis the United States will almost certainly remain precisely that during 1968.

8. Moscow, however, will certainly see opportunities for gain in 1968 which it may be all the more eager to exploit because of the strategic standoff with the US. Though essentially cautious, the Soviet leadership is conscious of its "superpower" role and of a steadily growing capacity to make its political, economic and military weight felt in areas outside its traditional orbit. There is every reason to expect that Moscow will be especially alert to extract advantage from the position it has established in the Arab world and in the Mediterranean Basin generally. Here, as elsewhere in the Third World, military aid will continue to provide a handy opening wedge, though there will be both trials and errors and the Soviets will find it impossible to impose a single pattern on relations with these countries. In Europe, there will be further losses in the East, some progress in the West. Toward China, there is a chance of a modest improvement in relations only if Mao should die or be replaced.

9. The ambivalence involved in seeking to compete with the US without confrontation will lead to uncertainties and, at times, arguments within the leadership. Even should the leadership change appreciably (and this

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is always possible), its collective nature will probably endure over the short term. To many of the Soviet leaders, the power relationship with the US, though improving, will continue to appear unsatisfactory; some will wish to devote priority attention to all manner of efforts to eliminate the imbalance. Others, however, will see less need of this, will be content to settle for an adequate level of deterrence; any other course, they would fear, would simply provoke the US to an even greater military effort and force the USSR into arms expenditures which could only cripple the Soviet economy as a whole.

10. Although disagreements as fundamental as this are not likely to be resolved totally next year, there are few grounds for the West to be encouraged about the general trend of Soviet thinking. The pattern of recent developments--the tenor of public discourse, the disbursement of funds, the completion of missile silos, the reluctance of the Soviets to discuss US offers concerning arms control, the Soviet posture in the Middle East, and even the increasing eminence of Brezhnev--all these signs suggest that the leadership has concluded that it must continue to seek major improvements in the Soviet strategic position, even at the risk of jeopardizing economic growth.

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I. THE POLITICAL SCENE: DOMESTIC AND FOREIGN

Introduction

1. The celebration of the 50th Anniversary of the Bolshevik Revolution bore the marks of the mood and style of the collective personality which has fashioned Soviet policy during the past three years. While the ordinary citizen--stimulated by vodka, parades and a week-long break from his normal routine--had reason to be festive, the official oratory which droned on around him was anything but exuberant. Looking back over the five decades of its existence, the Soviet government had more to be grateful for than mere survival, but as it contemplated the state of the nation and its place in the world, it also had reason to take a sober view.

2. The anniversary happened to just about coincide with the third anniversary of Khrushchev's overthrow. Despite some internal shifts of power, the committee that took over from him has since remained intact and its way of doing business has changed hardly at all. Some of this stability has been imparted to the national economy and to Soviet behavior abroad. Not much yeast has been put into either, however, largely because committee rule has entailed compromise, caution, and the choice, in most cases, of the safe middle way. The collective has not suffered any serious setbacks, either at home or abroad, but neither has it turned any major profits. As it begins its fourth year a number of important issues--some old, some new--are becoming more insistent.

3. For a regime whose overriding domestic preoccupation is economic performance, the need to find material incentives to stimulate labor output grows as ideological fervor declines. Accompanying the decline in fervor is a creeping social indiscipline, especially among the youth, and alienation among the educated elite. The regime has been unable to find any answer but repression, often harsh, to the rebelliousness of some of the leading lights of the cultural intelligentsia who are impatient for

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liberating reforms. The regime finds its economic goals further hampered by the lethargy and resistance to change of its massive bureaucracy.

4. None of these underlying difficulties seems as likely, however, to provoke controversy over domestic policy as does the issue of economic allocations. This problem, though a recurrent one, seems now to be reappearing in sharpened form, partly under the pressure of rising defense expenditures, and has produced discord within the Politburo itself.

5. Signs of tensions in the Soviet leadership over both foreign and domestic policies have become more evident recently. There is no reason to expect that these tensions will diminish. Yet even if the complexion of the collective personality should be altered, it is not likely that collective rule will suddenly collapse or that the collective style will change sharply. Moreover, no matter who the architects of Soviet policy might be, they would have to work with much the same materials now at hand. Thus, the Soviet leadership's prescription for dealing with its problems in the immediate future will probably be more compromise and more caution.

Internal Politics

6. No single figure has been able to dominate the political scene as Khrushchev once did, and the country has had to function without the kind of forceful, though often eccentric, direction of policy that he provided. The precedence given to the general secretary of the party, Brezhnev, during the jubilee ceremonies confirmed him in his place as the leading figure in the regime. It seems, however, that he is still only preeminent rather than predominant. He, Kosygin, Podgorny, and Suslov have become the inner circle of the Politburo whose views probably count for more than those of the other seven members. It is probable, that on most, if not all, of the chief issues of Soviet policy that have arisen during the past three years, a majority of these top four have stood on common ground.

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7. There is no doubt, however, that consensus has sometimes come hard--the economic reform program announced in 1965 seems to have been an assortment of painful compromises--and that at other times the dominant view has been challenged by leaders of the second rank.

8. The collective leadership has survived so long largely because none of the leaders has as yet displayed the power, fortitude, or the desire to upset existing arrangements. (Shelepin, one of the younger men in the Politburo, seems to have had serious designs on Brezhnev's position, but his claws have now been pulled). Moreover, since Khrushchev's overthrow, the collective has been governed by a ruling of the Central Committee which decrees that the premier posts in the party and government should never again be held by one man. Apart from this check on the re-establishment of one-man rule, and the traditional primacy of the party chief, there are no known institutional sanctions or safeguards regulating political interplay within the leadership.

9. The present political equilibrium seems therefore to be intrinsically fragile. Of the four top leaders, the largest question mark hangs over the future of Kosygin, who from time to time is rumored to be ready to step down, either because he is tired and ill or because his economic policies are being frustrated. With his departure would go a voice which seems generally to have been on the side of moderation. By and large, he has displayed this quality more consistently than Brezhnev. The party chief, though he too seems to have taken a middle of the road position on most major issues, gives signs of being more orthodox in basic instinct as well as more inclined to defer to military interests.

10. This is not to say, however, that changes in the internal balance of the Politburo would necessarily be reflected in a re-orientation of Soviet foreign policies. Although differences in outlook exist, distinct cleavages have not been apparent. It seems to be true that in Soviet politics now there are those who normally respond to issues as traditionalists, i.e., with ideological rigor and

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bureaucratic conservatism, and others who are willing to stretch doctrine and entertain certain unorthodox departures in policy. What cannot be said is that all Soviet leaders can be placed in one or another category or that such a division reflects so simple a matter as a split between militants and moderates.

Foreign Policy

11. The present leaders would like to see Soviet power and ideology become dominant on a world scale. As a real prospect, however, the notion of a world-wide Soviet triumph has long since lost much of its substance and virtually all its immediacy. Too many things have happened in recent years--too much trouble with the economy, too many rows with the Chinese and within the international movement, and too few gains against the West--to permit any responsible Soviet leaders to view the future with the kind of simplistic optimism once expressed by Khrushchev.

12. But if the Soviets now understand that there are definite limits to their ability to shape and exploit the course of events abroad, they have not as yet shown signs of accepting this appreciation gracefully. They sometimes seem most reluctant to match their ambitions to their means. Consequently, Soviet foreign policies now seem to reflect both a new sophistication (a more realistic and flexible awareness of national interests) and an old simplicity (the dogmatic insistence that the world conform to the Soviet image of it). This ambivalence can be expected to persist for some time and to be evident in the way Moscow deals with the most pressing international issues now facing it.

Relations With the US

13. In no aspect of Soviet foreign policy is this ambivalence more conspicuous than in relations with the US. The attitudes of the Soviet leaders are conditioned by persistent, underlying suspicion of the purposes of the foremost "imperialist" state, on the one hand, and, on the other, by an awareness

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of the dangers in the nuclear age of uncontrolled antagonism between the two great powers. The second of these conflicting impulses has, in general, prevailed under the collective leadership, as indeed it did under Khrushchev, but not without creating tensions in the policy-making process. In particular instances, where decisions affecting relations with the US were concerned, hesitancy, ambiguities and the attraction of a harder anti-imperialist line have been apparent. From time to time, episodes occur, such as the recent drugging of the US military attache and his British colleague and similar KGB-engineered incidents, which are hardly contrived to improve the state of US-Soviet relations.

14. The Soviet leaders have publicly asserted that no resolution of basic differences with the US is conceivable so long as the US is involved in the war in Vietnam. But they have also indicated (and, during the Middle East crisis, demonstrated) a strong desire to keep the lines open to Washington. And though they have at times insisted that US-Soviet relations must remain frozen for the duration, they have been willing to conclude specific agreements (e.g., on the peaceful uses of outer space) and to negotiate about others (e.g., nuclear proliferation) when they saw larger advantage to Soviet policy. In formulating its policies toward the US, the leadership has been unable to resolve the contradictory demands of a policy which seeks, on the one hand, gains against the US in Europe, the Middle East and elsewhere and, on the other, a tacit understanding with the US to avoid measures and countermeasures which would seriously risk international crises.

Arms Control

15. The USSR does not view arms control as a problem of great urgency. Moscow does see, however, some political profit in disarmament negotiations and in US-Soviet agreement on certain limited forms of control, such as a nuclear nonproliferation treaty, especially when it can be used as a means of promoting the political and military containment of West Germany. There is no reason to believe that the desirability of a treaty has been at issue within the Soviet leadership.

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16. Other arms control proposals now pending hold little interest for Moscow. Thus, for example, proposals to restrain the world arms trade are not likely to appeal to the Soviets since such trade and aid is clearly regarded in Moscow as its primary political tool in the Third World. And concerning measures of greater scope, such as the control of strategic weapons, the Soviets are likely to proceed with great caution and suspicion. In this instance, the collective leadership's characteristic hesitancy when faced with questions of considerable import is probably compounded by the apprehensions of the Soviet military, by the baneful influence of Vietnam on US-Soviet relations, and possibly by differences of opinion within the leadership as well. It is possible that the Soviet leaders will, after considerable agonizing among themselves, decide to enter into exploratory discussions with the US on the ABM question, but for the present the prospects appear to be slight that they would be willing to agree to any comprehensive program of strategic arms control.

Vietnam

17. The Soviet leaders have seen in US involvement in the war in Vietnam an opportunity for diplomatic and political profit, and they have been quick to try to exploit this opportunity wherever possible (as for example, in Western Europe). They are also concerned, however, that through their own involvement in the war they might become embroiled in situations which they could not control. Neither the US nor North Vietnam, the principal actors in the conflict, is very susceptible to Soviet influence; either of them could behave independently in a way which could test the USSR's resolve, strain its resources, and risk its direct involvement. But, if uncomfortable about the degree of their commitment to an ally which has a will of its own and which pursues a cause (control of the South) which is not of vital concern to the USSR, the Soviets nonetheless see no acceptable alternative. Almost certainly, they hope Hanoi or Washington, or both, will some day make a political solution to the war possible. In the meantime, they will seek to persuade the US not to escalate the conflict any

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further and to agree to terms for a settlement which would be acceptable to North Vietnam.

China

18. The USSR's delight at the way China was able to dissipate its resources in the Communist world by behaving bizarrely at home seems to have been tempered by concern over China's rabid hostility, bewilderment over the course of events inside China, and apprehension over what might happen next. Over the last few years, the Soviets have strengthened their armed forces along the Sino-Soviet frontier and in Mongolia and--though probably fearing only border skirmishing--are probably preparing for more serious contingencies. In the political and propaganda arena, the Soviets have won handsome dividends by striking an attitude of cool restraint toward the Chinese. Although it is conceivable that there are varying estimates within the Soviet leadership of the long-term outlook for Sino-Soviet relations, it is most unlikely that Moscow will consider an alternative to its present course as long as the Mao faction remains in power in Peking.

The Communist Movement

19. By and large, the trend toward declining Soviet authority in the Communist world has not been arrested. Among the Eastern European states, Rumania has been the most vocal and demonstrative in claiming the right to pursue its national interests largely according to its own lights, but such tendencies are growing, though more quietly, elsewhere in the region. And the USSR's problems with Castro's Cuba--particularly over whether Latin America is ripe for revolutionary upheaval or not--make the emotional gulf between the two Communist states ever wider.

20. At the same time the Soviets have some successes to their credit. They have managed to slow down the movement in Eastern Europe toward broader contacts with West Germany and other West European states. They have also finally, thanks again in no small part to Chinese extremism, made a step toward the convening of a unity conference of the international

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movement. Nevertheless, it is evident that the kind of international Communist cohesion that Moscow longs for is a forlorn hope. Most of the Communist parties which will gather in Budapest in February to "consult" on an international conference want no part of a Soviet-imposed policy consensus.

Europe

21. The Soviet leaders appear to be convinced that their generally conciliatory approach to Western Europe is a promising one and seem to recognize that they would have much to lose and little to gain by reverting to a harsher policy. They will probably continue for some time their present line of trying to persuade the West Europeans that the US is beginning to disengage from Europe and that detente with a benevolent Soviet Union is an ever growing possibility. The Soviets will almost certainly continue publicly to treat West Germany as a pariah, but will privately seek to explore the possibility of movement in Bonn toward acceptance of the status quo in Germany.

The Middle East

22. The Soviet decision in the midst of the Arab-Israeli conflict to start some replacement of military equipment in friendly Arab countries was probably provisional, intended primarily as a political holding action and not as an encouragement to continued Arab militancy. But the Soviets must recognize that, if they wish to enlarge their influence in the area, an aim they are very unlikely to abandon, they have no alternative to continuing to work with the radical Arabs. The speed with which the Soviets moved into the military vacuum opened up by the Egyptians in the Yemen and their incipient courtship of Jordan are proof that Moscow will not be backward in exploring avenues of new influence. But it is still unlikely that they will wish to do this by entering into actual military alliances with any of the Arab states, for the USSR has no desire to give these states a hold over its policies. The establishment of Soviet bases in the area would contain some of the same hazards and would, in addition, seriously undercut the USSR's

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"anti-imperialist" stance. Short of this, however, Moscow is likely to see both political and military advantage in expanding its military presence in the area.

23. Moscow will continue to exploit anti-Western attitudes in Arab countries, but it will not run the military risks or accept the political costs of identifying itself with Arab aspirations to destroy Israel. It follows also, however, that--barring a major change in Arab attitudes--the Soviets will not give very much help to diplomatic efforts to move toward a basic settlement of the Arab-Israeli conflict.

The Third World

24. Partly as a result of its experiences in recent years in such places as the Congo, Ghana and Indonesia, the Soviet Union's confidence that it possesses a reliable formula for dealing with the Third World has diminished. Khrushchev's simplistic assumption that the underdeveloped nations were animated by a single economic and social impulse which could be exploited in a uniform way has been confounded by events. The USSR has made steady progress in increasing its influence in the states on its southern periphery, such as Iran and Turkey, and will continue to give careful attention to its relations with them. Elsewhere in the Third World, it is questionable whether the USSR's political profits have been commensurate with its expenditures of cash and diplomatic energy. In any case, recent history has demonstrated that military and economic aid and the appeal of common socialist aspirations cannot guarantee the Soviet Union a stable political foothold in the midst of nationalist turbulence.

25. In Latin America, Moscow, seeing little prospect that the Communists can achieve power in the present circumstances by insurrectionary methods, has counseled the parties of the area to pursue united front tactics wherever possible. Meanwhile, the Soviets themselves, despite Castro's angry protests, are trying to build for the future on the

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basis of expanded commercial, consular and diplomatic ties with governments of varying political coloration. Much the same approach is taken toward Africa and the non-Communist nations of Southeast Asia and the Far East.

26. Despite its disappointments, the USSR will almost certainly maintain sizable aid programs for the less developed countries. Economic aid patterns may change; there are signs of a more discriminating approach and a shift to greater emphasis on military aid. But, while new extensions of economic assistance have been declining, total drawings by recipient states next year are likely to be about the same as in recent years, about \$300-350 million.

27. The lessons of the Middle East war have obviously not made the Russians any the less ready to use military aid as an instrument of political influence. To this end, the USSR is evidently fully prepared, where opportunity arises and where geography permits, as in the case of Nigeria and the Yemen, to call on its capacity to provide military aid promptly and in quantity. Despite their reluctance to make extended commitments, the Soviet leaders are almost certainly convinced that, as a great power, the USSR has a legitimate interest in practically all areas of the world and a political need to assert that interest.

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II. THE ECONOMY

Recent Performance

1. The collective leadership has reason to be pleased with the performance of the economy during the first two years of the current Five Year Plan. Economic growth, which had slowed under Khrushchev, accelerated in 1966-67. (See table on page II-2). Agricultural production was at a record level in 1966 and remained high in 1967. Above average weather--especially in 1966--played a vital role in this increase, but new monetary incentives and more fertilizer also had a beneficial effect. The growth of industrial output increased significantly, in part as a result of greater raw material supplies from agriculture. Most of the production goals of the Five Year Plan are being fulfilled. With large emergency wheat imports no longer needed, gold reserves increased and the hard currency deficit dropped. Implementation of the major economic reform launched in late 1965 has proceeded relatively smoothly, and the reforms appear to be yielding some small improvements in efficiency.

2. This does not mean, however, that the leadership is without serious economic problems. Quite the contrary. In the distribution of resources, defense and consumption have been favored and investment goals have been greatly underfulfilled. Defense spending rose sharply in 1966-67, and the annual rate of improvement in per capita consumption more than doubled. The rate of growth of industrial investment, however, which was already low, dropped even further, and in the key machinery sector the output of investment goods grew much more slowly than did military equipment and consumer durables. Investment in agriculture increased at only about half the annual rate originally scheduled for 1966-70 in the many-faceted program launched by Brezhnev in 1965 to get agriculture moving again. In sum, these two fat years for the marshals and consumers were achieved in part at the expense of industrial and agricultural investment, the key to the future growth of the economy.

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Table

USSR: Indicators of Economic Growth
1961-67 and 1966-70 PlanAverage Annual Rate of Growth (%)

	<u>Actual</u>		<u>1966-70</u>
	<u>1961-65</u>	<u>1966-67</u>	<u>Plan</u>
<u>Producing Sectors</u>			
Gross national product	5	6	6
Industry	6 1/2	8	8 to 8 1/2
Agriculture	3	4 1/2	4 3/4
<u>Principal Claimants</u>			
Consumption (per capita)	2 1/2	5 1/2	5
<u>Investment</u>			
Industry	7	5 to 5 1/2	8
Agriculture	11 1/2	7 1/2 to 8	15 to 16
Defense	2	8	NA

3. To give a better shake to consumers in the jubilee year the Kremlin imported an unprecedented \$100 million in clothing from the West, paying with hard currency that could have been used to import machinery and equipment. Also, because of the large carryover of feed grains from the good 1966 crop, the regime could assure plentiful supplies of meat and milk. Money incomes were permitted to rise sharply, in part as a consequence of new monetary incentives introduced in agriculture to spur deliveries to the government. As final insurance that the pie would indeed be large, the regime stepped up the pressure on workers and managers alike.

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Plans and Problems

4. Encouraged by the economic successes of 1966-67, the leadership apparently sees no reason to change the policy of favoring the military and the consumer. Indeed, the military apparently are being favored even more strongly. At the Supreme Soviet session in early October, the regime announced a 15 percent increase in the explicit defense budget for 1968 and an 11 percent rise in outlays for science, which are thought to include a sizable amount of defense expenditures. The plan for 1968 and general guidelines for 1969-70, while essentially reaffirming the over-all goals for output and consumption originally set for 1966-70, indicated major cutbacks in investment for agriculture and in output goals for key, nonmilitary commodities. A military-related sector--steel--however, is to get a 23 percent increase in investment in 1968.

5. The revised plans for 1968-70 also imply continuation of the rapid rise in money incomes, to be spurred in 1968 by the inauguration of a large boost in the minimum wage, generous new benefits for workers in northern regions, and improvements in pensions and other benefits. For the first time since 1953-54, the rate of growth planned for consumer goods industries in 1968 exceeds that for producers goods.

6. By continuing to favor the military and the consumer the regime is taking some major risks--more so than in the past 2 years. The continued slighting of investment in favor of defense is bound to weaken long-run prospects for economic growth. Moreover, the regime will have great difficulty in increasing the supply of consumer goods nearly enough to match rising incomes and expectations. The result could be shortages and rising dissatisfaction.

7. By permitting the rate of growth of industrial investment to drop in 1966-67 with no upturn apparently in the cards for 1968, the regime is sacrificing rapid improvement in the quality of its industrial plant and risking a future slowdown

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in the growth of industrial output. The growth of capital stock (plant and equipment) in industry has slowed to 8-9 percent annually, compared with 11 percent in 1961-65.

8. Similarly, in agriculture, large cutbacks in investment make sustained future gains in output less likely. The revised plan for 1968-70 may have reduced by as much as a third the original goal for investment in agricultural machinery and equipment.

Performance Next Year

9. The consequences of the decision to skimp on investment will not cause serious problems in industry and agriculture for another year or two because of the time required to build and use new facilities and equipment. Whether the economy will continue to grow in 1968 at the high rates of 1966-67 will depend mainly on earlier investment and on such factors as the effects of the economic reform on industry and of the weather on agriculture.

10. In agriculture the chances are poor for a significant increase in production in 1968. Rainfall was below normal this fall in the principal winter grain areas. Fertilizer deliveries in 1968 are scheduled to increase only at half the rate achieved in 1966-67. Under these conditions, crop production could rise substantially above last year only if the weather next spring is exceptional. Output of livestock products, such as meat and milk, is likely to level off or decline somewhat even if the 1968 harvest is good.

11. The poor prospects for increases in supplies of quality foods and for a repetition of the special efforts made in 1966-67 to improve the quantity and quality of consumer goods make it unlikely that per capita consumption will rise nearly so rapidly in 1968 as in 1966-67. But the regime has made commitments that will boost consumer incomes by nearly 9 percent and thus faces a serious risk of acute shortages and growing popular discontent.

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12. All in all, the regime's position is not enviable. There does not seem to be agreement in the leadership, however, as to what precisely should be done to improve the regime's position. There is evidence, in fact, that the decisions in favor of increased allocation of resources to the military have had their detractors. The decision to cut back so sharply on planned investment in agriculture surely was not reached without a battle at the highest political level. Politburo member Polyansky has already called this decision shortsighted, and other special pleading has appeared in the press in recent weeks. Thus, the allocation of economic resources is still clearly a matter of active controversy at the highest level.

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III. DEFENSE POLICY

Controversy

1. Soviet defense policies are in part a function of Kremlin politics, which, like politics everywhere, concern the questions who decides and what should be decided. While the first question may rarely be asked directly in the Soviet Union, it poses itself in a practical, political way every time the Soviet leadership faces a major decision and every time a major policy is brought up for review. It is a matter of some significance that the leadership's conduct of policy has been subjected to question over the past year.

2. This situation has an important bearing on military policy. Recent evidence suggests that the military establishment would not be reluctant to mix in the political arena to assert or defend its interests. Special pleading in the military press for higher allocations was apparent last summer and fall when the new Soviet budget was being formulated and the proponents of higher defense spending and the heavy industry interest seemed frequently to make common cause. In part because of the existence of this influential lobby, the regime's present emphasis on military policy seems set for some time to come.

Military Considerations

3. The world situation as seen from the Kremlin seems likely to reinforce this disposition. The military power and policies of the United States continue to constitute, in the Soviet view, not only a potential threat to Soviet security but also a principal obstacle to the exercise of Soviet political influence in world affairs. Despite the rapid progress in Soviet strategic programs over the past two years, the power relationship with the United States must still appear unsatisfactory. The Soviet leaders are aware that development efforts in US forces are aimed at improving the accuracy and penetration ability of US missiles and at greatly increasing the number of re-entry vehicles.

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4. In assessing their military needs for the future, the Soviet leaders will undoubtedly wish to continue strengthening the Soviet deterrent, not only for defensive reasons, but to reinforce the image of the Soviet Union as a great power. Even though they recognize that strategic power cannot be employed in war without unacceptable risks--and that this recognition is shared by the United States and the rest of the world--they are likely to believe that the mere possession of power will tend to extend their freedom of action in world affairs.

5. Beyond this, the Soviet leaders will continue to seek practical ways to translate their military power into effective political influence abroad. A main concern in this context is to develop the kinds of conventional capabilities that will enable them to show the flag and demonstrate a Soviet military "presence" in areas of particular interest such as the Mediterranean. And, despite the disappointments they have suffered in using military aid to influence "national liberation" movements, they almost certainly will continue their effort.

The Coming Year

6. The specific military programs to benefit from the announced increases in spending for 1968 cannot be projected until direct evidence becomes available. But, judging by the lines of development reflected in the deployment programs of the past year and the trends in Soviet doctrinal writing, it is possible to identify certain programs and forces likely to receive substantial emphasis. There is evidence that the SS-9 and SS-11 ICBM programs are continuing and that SS-11 deployment may be extended; [redacted]

[redacted] that new Polaris-type submarines will be appearing in some numbers; [redacted]

[redacted] Air defense capabilities will almost certainly continue to be expanded.

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7. Moreover, there is no indication that the Soviets are ready to agree to a freeze on ABM deployment. There have been no tangible responses to US overtures concerning this subject. The Soviets have continued work on the deployment of the Moscow ABM system and on the ABM research and development program. And Washington's decision to proceed with a limited ABM deployment in the United States seems likely to lend weight to the arguments of those interests in the USSR which press for larger military programs in general and a more extensive ABM deployment in particular.

8. In general, the most important issues of Soviet military policy will continue to center upon the strategic relationship with the US. If the Soviets hope to improve their relative strategic position, or even to maintain it, they will feel impelled to respond to planned improvements in US strategic forces. Whatever the specific responses may be, the Soviets appear determined to maintain a credible deterrent. Beyond this, they evidently attach great importance to the attainment of a military posture which they can construe as rough parity with the US, and which they can use to support their assertion of equality with the US in international affairs. These considerations together with the internal political situation would seem to assure that the high priority given to military programs--particularly to strategic forces--will persist and that defense expenditures will continue to grow.

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